

SENATE BILL NO. 377

INTRODUCED BY PERRY

A BILL FOR AN ACT ENTITLED: "AN ACT PROHIBITING THE DEDUCTION AS A BUSINESS EXPENSE OF ANY AMOUNT PAID TO AN UNAUTHORIZED ALIEN FOR SERVICES FROM THAT UNAUTHORIZED ALIEN; AND AMENDING SECTIONS 15-30-101, 15-30-123, AND 15-31-114, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-30-101, MCA, is amended to read:

"15-30-101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

(1) "Base year structure" means the following elements of the income tax structure:

(a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of the taxable year;

(b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect on June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

(a) that is treated as an association for federal income tax purposes;

(b) for which a valid election under section 1362 of the Internal Revenue Code, {26 U.S.C. 1362}, is not in effect; and

(c) that is not a disregarded entity.

(4) "Department" means the department of revenue.

(5) "Disregarded entity" means a business entity:

(a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in

1 United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as
2 those regulations may be labeled or amended; or

3 (b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided
4 in section 1361(b)(3) of the Internal Revenue Code, {26 U.S.C. 1361(b)(3)}.

5 (6) "Dividend" means:

6 (a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or
7 members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

8 (b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

9 (7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person,
10 whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

11 (8) "Foreign C. corporation" means a corporation that is not engaged in or doing business in Montana,
12 as provided in 15-31-101.

13 (9) "Foreign government" means any jurisdiction other than the one embraced within the United States,
14 its territories, and its possessions.

15 (10) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in
16 section 61 of the Internal Revenue Code, {26 U.S.C. 61}, or as that section may be labeled or amended,
17 excluding unemployment compensation included in federal gross income under the provisions of section 85 of
18 the Internal Revenue Code, {26 U.S.C. 85}, as amended.

19 (11) "Inflation factor" means a number determined for each tax year by dividing the consumer price index
20 for June of the tax year by the consumer price index for June 2005.

21 (12) "Information agents" includes all individuals and entities acting in whatever capacity, including
22 lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all
23 officers and employees of the state or of any municipal corporation or political subdivision of the state, having the
24 control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities,
25 compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits,
26 and income with respect to which any person or fiduciary is taxable under this chapter.

27 (13) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be
28 labeled or further amended. References to specific provisions of the Internal Revenue Code mean those
29 provisions as they may be otherwise labeled or further amended.

30 (14) "Knowingly" is as defined in 45-2-101.

(15) "Limited liability company" means a limited liability company, domestic limited liability company, or a foreign limited liability company as defined in 35-8-102.

(16) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

(17) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

(a) a resident taxpayer on a lottery ticket; or

(b) a nonresident taxpayer on a lottery ticket purchased in Montana.

(18) (a) "Montana source income" means:

(i) wages, salary, tips, and other compensation for services performed in the state or while a resident of the state;

(ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise transferred while a resident of the state, or used or held in connection with a trade, business, or occupation carried on in the state;

(iii) gain attributable to the sale or other transfer of intangible property received or accrued while a resident of the state;

(iv) interest received or accrued while a resident of the state or from an installment sale of real property or tangible commercial or business personal property located in the state;

(v) dividends received or accrued while a resident of the state;

(vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state or while a resident of the state;

(vii) net income or loss derived from farming activities carried on in the state or while a resident of the state;

(viii) net rents from real property and tangible personal property located in the state or received or accrued while a resident of the state;

(ix) net royalties from real property and from tangible real property to the extent the property is used in the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the royalty period in the tax year and the denominator of which is the number of days of physical location of the property everywhere during all royalty periods in the tax year. If the physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in which it was located at the time the person paying the royalty obtained possession.

(x) patent royalties to the extent the person paying them employs the patent in production, fabrication, manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are received or accrued while a resident of the state;

(xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties are received or accrued while a resident of the state;

(xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiv) social security benefits received or accrued while a resident of the state;

(xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits received while a resident of the state; and

(xvi) any other income attributable to the state, including but not limited to lottery winnings, state and federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

(b) The term does not include:

(i) compensation for military service of members of the armed services of the United States who are not Montana residents and who are residing in Montana solely by reason of compliance with military orders and does not include income derived from their personal property located in the state except with respect to personal property used in or arising from a trade or business carried on in Montana; or

(ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

(19) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this chapter.

(20) "Nonresident" means a natural person who is not a resident.

(21) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(22) "Partner" means a member of a partnership or a manager or member of any other entity, if treated as a partner for federal income tax purposes.

(23) "Partnership" means a general or limited partnership, limited liability partnership, limited liability company, or other entity, if treated as a partnership for federal income tax purposes.

(24) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

(25) "Pension and annuity income" means:

(a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term is used in section 401 of the Internal Revenue Code, {26 U.S.C. 401}, or systematic payments received as the result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon the cessation of employment;

(b) payments received as the result of past service and cessation of employment in the uniformed services of the United States;

(c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are included in federal adjusted gross income;

(d) distributions from individual retirement, deferred compensation, and self-employed retirement plans recognized under sections 401 through 408 of the Internal Revenue Code, {26 U.S.C. 401 through 408}, to the extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

(e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular employment.

(26) "Purposely" is as defined in 45-2-101.

(27) "Received", for the purpose of computation of taxable income under this chapter, means received or accrued, and the term "received or accrued" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(28) "Resident" applies only to natural persons and includes, for the purpose of determining liability to

the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the state of Montana and any other person who maintains a permanent place of abode within the state even though temporarily absent from the state and who has not established a residence elsewhere.

(29) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the Internal Revenue Code, {26 U.S.C. 1362}, is in effect.

(30) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in proportion to their previous holdings.

(31) "Tax year" means the taxpayer's taxable year for federal income tax purposes.

(32) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and exemptions provided for in this chapter.

(33) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation.

(34) "Unauthorized alien" has the meaning provided in 8 U.S.C. 1324a(h)(3)."

Section 2. Section 15-30-123, MCA, is amended to read:

"15-30-123. Nondeductible items in computing net income. (1) In computing net income, deductions are not allowed for:

~~(1)~~(a) personal, living, or family expenses;

~~(2)~~(b) any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

~~(3)~~(c) any amount expended in restoring property or in making good the exhaustion of the property for which an allowance is or has been made;

~~(4)~~(d) premiums paid on any life insurance policy covering the life of any officer or employee or of any person financially interested in any trade or business carried on by the taxpayer when the taxpayer is directly or indirectly a beneficiary under the policy; ~~or~~

~~(5)~~(e) expenses that are associated with the production of exempt or excludable income. This subsection ~~(5)~~ (1)(e) does not apply to the deductibility of federal income taxes paid on income that is excludable or exempt for Montana income tax purposes.

(2) (a) A wage or salary paid for personal services is not allowed as a deductible business expense if the individual to whom the wage or salary is paid is an unauthorized alien.

1 (b) Subsection (2)(a) does not apply to:

2 (i) a taxpayer who is exempt from the prohibition contained in 8 U.S.C. 1324a against the employment
3 of an unauthorized alien MEETS THE REQUIREMENTS FOR GOOD FAITH COMPLIANCE CONTAINED IN 8 U.S.C.
4 1324A(B)(6); or

5 (ii) a wage or salary paid for personal services to an unauthorized alien before January 1, 2010."

6
7 **Section 3.** Section 15-31-114, MCA, is amended to read:

8 **"15-31-114. Deductions allowed in computing income.** (1) In computing the net income, the following
9 deductions are allowed from the gross income received by the corporation within the year from all sources:

10 (a) except as provided in [section 4], all the ordinary and necessary expenses paid or incurred during
11 the taxable year in the maintenance and operation of its business and properties, including reasonable allowance
12 for salaries for personal services actually rendered, subject to the limitation contained in this section, and rentals
13 or other payments required to be made as a condition to the continued use or possession of property to which
14 the corporation has not taken or is not taking title or in which it has no equity. A deduction is not allowed for
15 salaries paid upon which the recipient has not paid Montana state income tax. However, when domestic
16 corporations are taxed on income derived from outside the state, salaries of officers paid in connection with
17 securing the income are deductible.

18 (b) (i) all losses actually sustained and charged off within the year and not compensated by insurance
19 or otherwise, including a reasonable allowance for the wear and tear and obsolescence of property used in the
20 trade or business. The allowance is determined according to the provisions of section 167 of the Internal Revenue
21 Code in effect with respect to the taxable year. All elections for depreciation must be the same as the elections
22 made for federal income tax purposes. A deduction is not allowed for any amount paid out for any buildings,
23 permanent improvements, or betterments made to increase the value of any property or estate, and a deduction
24 may not be made for any amount of expense of restoring property or making good the exhaustion of property for
25 which an allowance is or has been made. A depreciation or amortization deduction is not allowed on a title plant
26 as defined in 33-25-105(15).

27 (ii) There is allowed as a deduction for the taxable period a net operating loss deduction determined
28 according to the provisions of 15-31-119.

29 (c) in the case of mines, other natural deposits, oil and gas wells, and timber, a reasonable allowance
30 for depletion and for depreciation of improvements. The reasonable allowance must be determined according

1 to the provisions of the Internal Revenue Code in effect for the taxable year. All elections made under the Internal
2 Revenue Code with respect to capitalizing or expensing exploration and development costs and intangible drilling
3 expenses for corporation license tax purposes must be the same as the elections made for federal income tax
4 purposes.

5 (d) the amount of interest paid within the year on its indebtedness incurred in the operation of the
6 business from which its income is derived. Interest may not be allowed as a deduction if paid on an indebtedness
7 created for the purchase, maintenance, or improvement of property or for the conduct of business unless the
8 income from the property or business would be taxable under this part.

9 (e) (i) taxes paid within the year, except the following:

10 (A) taxes imposed by this part;

11 (B) taxes assessed against local benefits of a kind tending to increase the value of the property
12 assessed;

13 (C) taxes on or according to or measured by net income or profits imposed by authority of the
14 government of the United States;

15 (D) taxes imposed by any other state or country upon or measured by net income or profits.

16 (ii) Taxes deductible under this part must be construed to include taxes imposed by any county, school
17 district, or municipality of this state.

18 (f) that portion of an energy-related investment allowed as a deduction under 15-32-103;

19 (g) (i) except as provided in subsection (1)(g)(ii) or (1)(g)(iii), charitable contributions and gifts that qualify
20 for deduction under section 170 of the Internal Revenue Code, 26 U.S.C. 170, as amended.

21 (ii) The public service commission may not allow in the rate base of a regulated corporation the inclusion
22 of contributions made under this subsection.

23 (iii) A deduction is not allowed for a charitable contribution using a charitable gift annuity unless the
24 annuity is a qualified charitable gift annuity as defined in 33-20-701.

25 (h) per capita livestock fees imposed pursuant to 15-24-921, 15-24-922, 81-6-104, 81-6-204, 81-6-209,
26 81-7-118, or 81-7-201.

27 (2) In lieu of the deduction allowed under subsection (1)(g), the taxpayer may deduct the fair market
28 value, not to exceed 30% of the taxpayer's net income, of a computer or other sophisticated technological
29 equipment or apparatus intended for use with the computer donated to an elementary, secondary, or accredited
30 postsecondary school located in Montana if:

1 (a) the contribution is made no later than 5 years after the manufacture of the donated property is
2 substantially completed;

3 (b) the property is not transferred by the donee in exchange for money, other property, or services; and

4 (c) the taxpayer receives a written statement from the donee in which the donee agrees to accept the
5 property and representing that the use and disposition of the property will be in accordance with the provisions
6 of subsection (2)(b).

7 (3) In the case of a regulated investment company or a fund of a regulated investment company, as
8 defined in section 851(a) or 851(g) of the Internal Revenue Code of 1986, 26 U.S.C. 851(a) or 851(g), as that
9 section may be amended or renumbered, there is allowed a deduction for dividends paid, as defined in section
10 561 of the Internal Revenue Code of 1986, 26 U.S.C. 561, as that section may be amended or renumbered,
11 except that the deduction for dividends is not allowed with respect to dividends attributable to any income that
12 is not subject to tax under this chapter when earned by the regulated investment company. For the purposes of
13 computing the deduction for dividends paid, the provisions of sections 852(b)(7) and 855 of the Internal Revenue
14 Code of 1986, 26 U.S.C. 852(b)(7) and 855, as those sections may be amended or renumbered, apply. A
15 regulated investment company is not allowed a deduction for dividends received as defined in sections 243
16 through 245 of the Internal Revenue Code of 1986, 26 U.S.C. 243 through 245, as those sections may be
17 amended or renumbered."

18
19 **NEW SECTION. Section 4. No business expense deduction for employment of unauthorized**
20 **alien.** (1) A wage or salary paid for personal services is not allowed as a deductible business expense if the
21 individual to whom the wage is paid is an unauthorized alien.

22 (2) Subsection (1) does not apply to:

23 (a) a taxpayer who ~~is exempt from the prohibition contained in 8 U.S.C. 1324a against the employment~~
24 ~~of unauthorized aliens~~ MEETS THE REQUIREMENTS FOR GOOD FAITH COMPLIANCE CONTAINED IN 8 U.S.C. 1324A(B)(6);
25 or

26 (b) a wage or salary paid for personal services to an unauthorized alien before January 1, 2010.

27 (3) As used in this section "unauthorized alien" has the meaning provided in 8 U.S.C. 1324a(h)(3).

28
29 **NEW SECTION. Section 5. Codification instruction.** [Section 4] is intended to be codified as an
30 integral part of Title 15, chapter 31, part 1, and the provisions of Title 15, chapter 31, part 1, apply to [section 4].

31 - END -